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TAX REFORM FOR DEVELOPING VIABLE AND SUSTAINABLE TAX SYSTEMS IN INDIA WITH SPECIAL REFERENCE TO GST

Suraj M. Shah
Assistant Professor, V M Patel institute of Management (Faculty of Management),
Ganpat University, Gujarat, India

Dr. Nirav R. Joshi
Assistant Professor,V M Patel institute of Management (Faculty of Management),
Ganpat University, Gujarat, India

ABSTRACT

Most developing countries continue to face severe issues in developing adequate and quick to respond tax systems. While each of these paths to reform is necessary, in the end what 50 years of experience tells us is that improving the precision and understanding with which fiscal issues both within and outside government, is the really essential ingredient to developing viable and sustainable tax systems in developing countries like India. Indian taxation system has undergone remarkable reforms during the last decade. The tax rates have been rationalized and tax laws have been simplified resulting in better compliance, ease of tax payment and better enforcement. The process of validation of tax administration is ongoing in India.

Another key objective of tax reform measures has been to increase total tax to GDP ratio as a means of achieving fiscal consolidation and improving resource allocation. GST, easier tax filing methodology and simpler tax structures – Government of India is working to enhance the government's revenue collection, at the same time ensuring that cumbersome taxes do not deter investors. This paper review the three principal ways in which developing countries like India may develop and progress their taxation systems - base-broadening, rate reduction, and administrative improvement - in the context of the political economy of tax reform.

Key words: Tax reform, GST, Developing viable and sustainable tax systems.

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1. INTRODUCTION

1.1. Concept of Tax Reforms

Philosophy of tax reform has been changed considerably over the years with the changing perception of the role of state in tax policy and activities. In recent time, the market oriented tax policies are preferred to social one. Designing tax policy and reforming existing tax system are two different things. Anushuya; Pal, Narwal Karam,(2014). Tax is the major source of revenue to government in India. Taxes are levied as per the laws prescribed in constitution of India. It is levied by central and state government and also by local bodies. The Development of any country's economy depends directly on the Country's Taxation Structure. A Taxation Structure which facilitates easy of doing business and having no chance for tax evasion brings prosperity to a country's economy. In India, the Taxes are classified in to two types, direct taxes and indirect taxes. Direct Taxes are those which are paid directly by the individual or organization to the imposing authority. They are levied on income and profits Indirect Taxes are those which are not paid directly by the individual or organization to the imposing authority. They are levied on goods and services and not on income and profits. Direct Taxes such as Corporation tax, Taxes on income, Estate duty, Interest Tax, Wealth Tax, Gift Tax, Land Revenue, Agricultural tax, Hotel receipts tax, Expenditure tax & Indirect Taxes such as Customs, Union excise duties, Service tax, State Excise duty, Stamp and registration fees, General Sales tax, Taxes on vehicle, Entertainment tax, Taxes on goods and passengers, Taxes and duties on electricity & Taxes on purchase of sugarcane. Taxation is a very important and critical source for the development and growth of an economy. Objectives of the tax policy of a country should be parallel to its general economic policy. The key part of income of a government comes from taxes whether it is direct tax or indirect tax. A sound tax system is vital for the development of the excellent strength of public finance of any country. That's the reason; various taxation reforms in dissimilar countries are being witnessed in the period of globalization.

The world has witnessed major reforms in tax policies and systems since last two-three decades. These reforms are mainly in support of the expansion policy of the financial system, increasing globalization, the motivation to make the tax system in tune with international best practices and discover some answer for financial difference. India is no exclusion of it. The main specialty of Indian tax system lies on constitutional powers. Taxes are levied at both centre and state level. Some taxes are also levied by local authorities. Schedule VII of Indian constitution enumerates powers to levy taxes into three lists.

1.2. Need for Comprehensive Reforms

On the other hand taxation structure which has provisions for tax evasion and the one which does not facilitate ease of doing business slows down the growth of country's economy. Therefore as taxation structure plays an important role in country's development. There is always need for study of the taxation structure to make the Taxation structure more simple that earlier.

While the proposed Goods and Services Tax (GST) is usual to widen the base of indirect taxes, complete administrative and legal reforms are required to control huge avoidance of direct taxes in India. Perhaps the time has come for reforming the direct tax reforms. Kavaljit Singh, (2016), Reforming the Direct Tax Reforms in India.

The major reforms being undertaken in Indian Taxation System in reference to Indirect Taxation System is presented in below:

Table 3 Reforms in Indirect Taxation System Year

Reforms in Indirect Taxation System Year	Reforms
1974	Report of LK Jha Committee suggested VAT should be introduced
1986	Introduction of a restricted VAT called MODVAT
1991	Report by the Chelliah Committee recommended either VAT or GST which was accepted by Government
1994	Introduction of Service Tax @ 5%
1999	Formation of Empowered Committee on State VAT
2000	Implementation of uniform floor rate of tax for VAT at the rate 1%, 4% and 12.5%. and Abolition of tax related incentives granted by States
2003	VAT implemented in Haryana in April 2003
2004	Significant progress towards CENVAT, MODVAT was abolished and credit account was merged with service tax and excise to provide for cross utilization.
2005-06	VAT implemented in 26 more states
2007	First GST released By Mr. P. Shome in January Finance Minister announces for GST in budget Speech and CST phase out starts in April 2007. Then, Joint Working Group formed and submitted report
2008	EC finalizes the view on GST structure in April 2008
2009	First discussion paper on GST was released and commission submitted report proposing GST to be implemented from 1.4.2010
2010	Department of Revenue commented on GST discussion paper and Finance Minister suggested probable GST rate.
2011	Team was set up to lay down road map for GST and 115th Constitutional Amendment Bill for GST was laid down in Parliament
2012	Negative list regime for service tax was implemented
2013	Parliamentary Standing Committee submitted its report on the Bill
2014	115th Amendment Bill lapsed and was reintroduced in 122nd Constitutional Amendment Bill

Source: Akanksha Khurana, Aastha Sharma, (2016)

1.3. Goods and Service Tax as a Tax Reform Tool

Traditionally Indirect taxes specially excise and custom duty had a big share in Indian tax revenue until reforms of 1991 were implemented. Reforms in 1991 laid roadmap for simplification in indirect tax structure. The share in total tax revenue is decreased. Since then there are various reforms in Indian Taxation history such as introduction of MODVAT, service tax, CENVAT and state VAT. They are mostly concerned with reduction in exemption list to broaden the base and reduction in tax rate. Traditionally Sales tax is producer based that has various limitations. Each reform recommended by various committees suggested ways to come near consumption based tax. India is presently at the step of the revolutionary change in its taxation policy. The most recent phase of tax policy reforms in India witnessed the introduction of an important legislature i.e. constitutional amendment bill to introduce the Goods and Services Tax (GST). The Good and services tax (GST) is the biggest and considerable indirect tax reform since 1947. The main idea of GST is to replace existing taxes like value-added tax, excise duty,

service tax and sales tax. It will be levied on manufacture sale and consumption of goods and services. Goods and Service tax bill officially known as the constitution (one hundred and twenty second amendment) bill, 2014 proposes a national value added tax to be implemented in India from June 2016. The GST implementation in India is 'Dual' in nature, i.e. it would consist of two components: one levied by Centre (CGST) and another levied by States and Union Territories (SGST). However, base of tax levy would be identical. Under the GST scheme, no distinction is made between goods and services for levying of tax. This means that goods and services attract the same rate of tax. GST is a multi-tier tax where ultimate burden of tax fall on the consumer of goods/services. It is called as value added tax because at every stage, tax is being paid on the value addition.

GST is proposed to perform the following objectives:

- GST would help to remove the cascading effects of production and distribution cost of goods and services. This would help to increase GDP and then to economic condition of the country.
- GST would remove the multiplicity of indirect taxation and reorganize all the indirect taxes which would be beneficial for manufacture and ultimate consumer.
- GST would be able to cover all the shortcomings of active VAT system and hopefully serve the economy health.
- Incidence of tax falls on household consumption
- The efficiency and equity of system is optimized
- There should be no export of taxes across taxing jurisdiction
- The Indian market should be integrated into single common market
- It enhances the cause of co-operative federalism.

2. REVIEW OF LITERATURE

- Indian tax system is guided by a multifaceted set of laws and policies. Extensive avoidance of tax is an issue of concern (Eigner, Richard M, 1959).
- Tax compliance can be improved by implementing simple reforms in personnel policy in Indian income tax administration. Taxpayers voluntarily disclosing higher income are currently assigned to special assessment units. Therefore, taxpayers minimize their income. (Das-Gupta, Arindam; Ghosh, Shanto; Mookherjee, Dilip, 2004)
- In India, some tax structure changes were implemented to reduce tax evasion. It included changes in tax rate structure and deductions. (Das-Gupta, Arindam; Gang, Ira N ,2000).
- A series of steps were taken by the Customs and excise Department, Government of India, to diminish corruption and stop leakages of revenue in customs and excise tax collection and management. Liberalization and generalization of laws and procedures was implemented. It reduced corruption and enhanced revenue collection. (Jayaraman Vijayakumar; Rasheed, Abdul A; Krishnan, V S ,2005).
- Value added tax (VAT) is a type of indirect tax that is imposed on goods and services. Sometimes, when the government operates on a budget surplus or wants to increase its income in order to finance its budget shortfall. In one of the most large scale reforms of the country's public finances in over the past 50 years, India has finally agreed the initiate of its much delayed value added tax from 1st April, 2005 at a rate of 12.5%. The tax rate is fixed by conference of different state level Finance Minister, in New Delhi, designed to build accounting clearer, to cut short employment barriers and improve tax revenues. (Tripathi, Ravindra; Sinha, Ambalika; Agarwal, Sweta ,2011).
- The Report of the India, Taxation Enquiry Commission, 1953-54 is an essential involvement to official literature on taxation. Appointed in April 1953, the Commission was charged with making a systematic assessment of central, state, and local taxation in order to decide the occurrence. (Goode, Richard ,1956).
- It is estimated that a 3 point expansion in the corruption awareness index would almost twice the tax corporate tax collection in India.(Ketkar, Kusum W; Murtuza, Athar; Ketkar, Suhas L ,2005)
- Together direct and indirect taxes are affected by inter governmental transfers. (Dash, Bharatee Bhusana; Raja, Angara V,2013).

- (Kumat, 2014)in his research paper examined that there should be a coordinated use tax system. He also states that getting improved the capability of Indian tax system continues to be a key challenge in India.
- (Jha, 2013)in his research paper suggested that high reliance on indirect taxes should be reduced and direct taxes should be in increased on wealthy to pay off the losses.
- (Rao, 2005)in his research paper on Tax system reforms in India: achievement and challenges ahead focuses on the union and state level reforms. He concluded that the reforms are just the beginning and considerable distance in reforming the tax system is yet to be covered.
- Empowered Committee of Finance Ministers (2009) introduced their First Discussion Paper on Goods and Services Tax in India which analyzed the structure and loopholes if any in GST
- Vasanthagopal (2011) in the article GST in India: A Big Leap in the Indirect Taxation System discussed the impact of GST on different sectors of the financial system. The article further stated that GST is a big jump and a new force to India's financial change.
- Bird (2012) summarizes in the article The GST/HST: Creating an integrated Sales Tax in a Federal Country the impact of GST will be on Canada.
- Garg (2014) in the article named Basic Concepts and Features of Good and Services Tax in India analyzed the impact and GST on Indian Tax scenario and concluded that it will strengthen out free market economy.
- Kumar (2014) studied in the article Goods and Services Tax in India: A Way Forward background, silent features and concluded with the positive impact of GST on present complex tax composition and expansion of common countrywide market.
- Indirect Taxes Committee of Institute of Chartered Accountants of India (ICAI) (2015) submitted a PPT naming Goods and Serice Tax (GST) which stated in concise particulars of the GST and its positive impact on economy and various stakeholders.
- Parkhi did an exploratory research in an article Goods and Service Tax in India: the changing face of economy and stated that execution of GST is a altering features of India and the administration is healthy equipped for that which is a sign of fast paced financial system.

2.1. Statement of the Problem

Indian taxation structure has gone throughout lots of reforms and still it is very far in front from being an ideal taxation structure. Many problems like Tax Evasion, Reliance on indirect taxes, Black money and existence of parallel financial system show that Indian taxation system requires some chief reforms in the outlook ahead to speak to all this problems.

2.2. Objectives

The paper uses an exploratory research practice based on past literature from respective journals, reports, newspapers and magazines covering wide collection of scholastic literature on Goods and Service Tax. Available secondary data was extensively used for the study.

The objectives of the paper are:

- To find out effect of Goods and Service Tax as a tax reform tool and its impact on the economy.
- To find our various implications of Goods and Service tax in tax reform.

3. IMPACT OF GOODS AND SERVICE TAX IN VARIOUS SECTORS

Section 2, GST has a positive impact on the economy and on various sectors which are as follows:

3.1. Fast Moving Consumer Goods Sector

With the implementation of Goods and Service Tax, FMCG sector would really change. FMCG sector consist 50% Food and Beverage sector and 30% is Household and Personal care. FMCG sector is the major taxation contributor both direct and indirect in the financial system. FMCG companies set their manufacturing units and warehouses where they can benefit tax benefits. To move the stock from the

warehouses among the states they have to pay taxes. So, GST would surely impact on FMCG sector as taxes influence the rate to the corporation.

3.2. Food Industry

Since food constitutes a large portion of the consumer expense of lower income households, any tax on food would be regressive in nature. Even in countries such as Canada, UK and Australia where food comprise a comparatively little segment of the consumer basket, food is taxed at zero rates. While in some countries, food is taxed at a standard rate which is as low as 3% in Singapore and Japan at the inception of the GST. Even in international jurisdictions, no difference is drawn on the amount of processing of food. Hence, the advantage of lower or zero tax rates should also be comprehensive to all food items in India apart from to degree of processing.

3.3. Information Technology Enabled Services

The proposed GST rate under the IT industry is not yet determined. While the discussed combined rate of GST for the product is 27%. According to proposed GST if the software is transferred through electronic form it would be regarded as service (intellectual property) and if it is transferred through media or any other tangible property then it should be treated as goods. Implementation of GST will help in uniform simplified and single point taxation and thereby cheap price.

3.4. Infrastructure Sector

The Indian infrastructure sectors mainly include power, road, port, railways and mining. And the indirect tax levy is different and unique for each of them, and this is complex in nature. Although this sector enjoys different exemptions and concessions as it is important on national front. With the implication of GST the variety of taxes will be removed and it would add to the tax bottom with persistence of exemptions and concessions for national attention and development.

3.5. Impact on Small Enterprises

In the small scale enterprises there are three categories:-

- Those below threshold need not to register for the GST.
- Those between the threshold and composition turnovers will have the option to pay a turnover based tax or opt to join the GST regime.
- Those above threshold limit will need to be within framework of GST.

In respect of the central GST the situation is slightly complex.GST is expected to support observance and which is also expected to broaden tax base adding up to 2% to GDP. Manufacturers, traders will have to pay less tax with the implication of GST.

4. MANAGERIAL IMPLICATIONS

Section 4, GST has the following implications:

- GST will widen the tax base, improve tax compliance and will remove unhealthy competition among states. It will redistribute the burden of taxation equitably among manufacturing and services.
- It ensures uniformity of tax system across the states. It will integrate the tax base and allow seamless flow of Input Tax Credit (ITC) resulting in reduced cost of goods and services.
- It will improve disclosure of economic transactions.
- It will mitigate cascading and double taxation thus enables better compliance. It will also lead to transparency in tax system resulting in difficulty of tax evasion.
- Ensure better compliance due to aggregate tax rate reduces.
- By reducing the tax burden the competitiveness of Indian products in international market is expected to increase and there by development of the nation.

- Prices of goods are expected to reduce in the long run as the benefits of less tax burden would be passed on to the consumer.
- GST is structured to reduce manufacturing costs. This makes exports more competitive.
- GST also means cheaper goods; fairer prices for consumers Kanchan, Nov 2016.

5. CONCLUSION

Thus, in India, tax forming a major component of revenue, tax evasion is one of the major issues. Many steps are taken by government to reduce tax evasion. Value added tax has different effects on the society. Many efforts are taken to increase foreign direct investment to strengthen economy. Introduction of GST will help to reduce problems of tax system in India and lead to its improvement. It can be concluded from the above discussion that GST will provide relief to producers and consumers by providing wide and comprehensive coverage of input tax credit set-off, service tax set off and subsuming the several taxes. Efficient formulation of GST will lead to resource and revenue gain for both Centre and States majorly through widening of tax base and improvement in tax compliance. It can be further concluded that GST have a positive impact on various sectors and industry. Although implementation of GST requires concentrated efforts of all stake holders namely, Central and State Government, trade and industry. Thus, necessary steps should be taken.

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